
Approaches to Hospitality Entrepreneurship Education in the Future: Traditional or Effectual?

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Abstract

A study was conducted to determine how tomorrow's hospitality entrepreneurs will approach their ventures. Logics identified by Sarasvathy (2001) will supply the lens through which hospitality students' envisioned actions will be analyzed. As described by Sarasvathy (2001), entrepreneurs can employ traditional (termed causal) or effectual (the opposite of traditional) approaches. Sarasvathy suggests that the causal approach is appropriate for predictable and certain environments, and an effectual approach is called for in uncertain environments. Results of this survey indicate that students are predominantly oriented toward using a traditional or causal approach. Are hospitality students, then, being fully prepared for their futures? Will they be prepared to act in uncertain environments? Is their hospitality entrepreneurial toolkit complete? This paper suggests that hospitality educators should consider supplementing their curriculum to include effectual-related instruction so that hospitality students will be more fully prepared in their careers.

Key Words: hospitality, effectuation, causation, entrepreneurial education, intentions

Introduction

Expanding for decades, travel and tourism is now one of the largest and most rapidly growing sectors on the face of the earth (World Economic Forum, 2013a). But today's hospitality and tourism industry is facing an ever increasing array of challenges and uncertainties. Hospitality is inherently characterized by rapid change and fluctuation. Elevated levels of environmental uncertainty are related to environmental dynamism and environmental complexity (Harrington, 2001). Unexpected changes are hard to predict and firms that operate in this type of environment face increased risk and consequently members have a higher level of perceived uncertainty. Firms in highly dynamic environments experience high levels of volatility. A significant 41.1% of firms in various segments of the hospitality industry operated in this type of environment (Crawford-Welch, 1990). A more recent study (Chen & Yu, 2012) supports the hypothesis that the hotel business is highly sensitive to economic cycles and that the industry is facing high frequency and high fluctuation over the demand for lodging services.

One of the central issues, then, facing hospitality today is how shall the hospitality workers of tomorrow be educated in order to best operate in this potentially tumultuous environment. Of particular interest to this paper is how are the introducers of tomorrow's new hospitality products and services, the hospitality entrepreneurs, being prepared from an educational standpoint. Do they have an adequate toolkit to confront their ever-changing environment?

This descriptive research project aims not to explain levels of entrepreneurial activity in the hospitality and tourism industries. Rather, the study examines the educational make-up of tomorrow's hospitality entrepreneurs, endeavoring to ascertain the logics directing actions of tomorrow's hospitality entrepreneurs. Two approaches to entrepreneurship, causation and effectuation, as developed by Sarasvathy (2001), will be used to examine a hospitality education program. This paper will first provide a description of how entrepreneurial education, via its impact on intentions, influences entrepreneurship. Next, effectuation and causation will be introduced and described. Following this, methods and the associated results pertaining to the characterization of a hospitality education program is presented. Lastly, observations and suggestions related to the research are discussed.

Intention Models

When explaining entrepreneurial action, intention models that are theory driven and testable have emerged as a promising approach. Two such models that have been empirically tested, Shapero's entrepreneurial event model (Shapero & Sokol, 1982) and Ajzen's theory of planned behavior (Ajzen, 1991), share many similarities. At their core, these models posit that intentions are the best predictor of planned behavior, mediating the relationship between attitudes and behavior (Bagozzi, Baumgartner, & Yi, 1989 and Ajzen, 1991). Shared antecedents to intention include aspects of desirability or attitude toward the behavior and ability to undertake the behavior (perceived behavioral control). Additionally, Shapero's model includes the propensity to act (Shapero & Sokol, 1982) while Ajzen's includes subjective norms (Ajzen, 1991). Influencing these antecedents are exogenous variables that include a variety of influences (Krueger, 1993).

Researchers have also turned their attentions to examining what exogenous variables influence antecedents to intentions (Krueger & Carsrud, 1993). One such exogenous variable, entrepreneurship

education programs (termed EEP by Fayolle, Gailly, & Lassas-Clerc, 2006), has attracted attention. In fact, a number of papers have found support for the supposition that education in the form of EEP positively and significantly influences entrepreneurial intentions (Peterman & Kennedy, 2003, Fayolle, Gailly, & Lassas-Clerc, 2006, and Souitaris, Zerbinati, & Al-Laham, 2007), which, again, are the best predictors of entrepreneurial activity. Additionally, research into EEP related to the Global Entrepreneurship Monitor's original entrepreneurship conceptual model also suggested that entrepreneurial education plays a significant role in influencing both the identification of opportunities and perceived ability to act entrepreneurially (Levie & Autio, 2008).

Effectuation and Causation

Recent research pioneered by Dr. Saras Sarasvathy in the field of entrepreneurship has turned to the study of expert entrepreneurs and how they act under conditions of uncertainty, and provides a useful lens to examine entrepreneurship in relatively uncertain environments, such as today's hospitality and tourism sector. Sarasvathy's (2008) work looks at the actions taken by expert entrepreneurs and uncovers a distinct logic and set of principles that guide them. Expert entrepreneurs, as defined as those successful individuals who have founded one or more companies, been actively engaged in entrepreneurship for at least ten years, and have taken at least one firm public, are postulated to use what is termed effectual logic as opposed to causal logic, the term applied to traditional business approaches found in many business school programs (Sarasvathy, 2008).

Effectuation and effectual principles are used to describe how entrepreneurs act under uncertainty using non-predictive logic when creating new products, firms, and markets. At the core of effectuation is the notion that entrepreneurs do not begin the entrepreneurial process with a known, specific goal and then determine what is needed to reach the goal. This is, in fact, causation. Instead, effectuation states that entrepreneurs start with what they have (their means), having no specific notion of what the final outcome will look like. The venture's means are increased through the addition of resources supplied by self-selecting stakeholders. The entrepreneur and stakeholders then together winnow out possible outcomes until one is identified (Sarasvathy, 2001). As Mainela and Puhakka (2008) state, effectuation is "like creating a game at the same time that you are playing it instead of trying to play a familiar game more effectively" (p.114).

Sarasvathy succinctly describes effectuation with the use of five principles. The first principle, Bird-in-Hand, describes how effectual entrepreneurs take consideration of their means as the starting point of their venture. Means in this context includes who they are, what they know, and whom they know. Affordable Loss, the second principle, takes a similar approach to Bird-in-Hand in that it also relates to what the entrepreneur does initially; however, in this case the principle refers to the initial investment. The idea is that effectuators financially commit only what they are willing to lose in the undertaking of the venture, and this acts as a limiting factor when considering possible outcomes of their means. The third principle, Crazy-Quilt, describes how effectuators acquire resources (other than their own) and reduce uncertainty by entering into partnerships with self-selecting stakeholders who make actual commitments to the venture. Additionally, these strategic partnerships reduce the effectuators need for and reliance on detailed market analyses as the effectuator and stakeholders co-create the future. Effectuators are not afraid of the unknown, as encapsulated in the fourth principle, the Lemonade Principle. As effectuators are not wed to a final goal, they do not attempt to avoid contingencies but view them as a chance to exert control over a changing environment. The final principle, Pilot-of-the-Plane, describes how effectuators attempt to control the future through their actions as opposed to accepting an exogenous future upon which they have no impact (Sarasvathy, 2008).

Causation utilizes predictive logic, reasoning that if the future can be predicted then one can position oneself advantageously for that future, and largely mirrors practices and methods taught in traditional business courses. Effectuation takes a decidedly different approach and has consequently been described by Sarasvathy (2001) and Read and Sarasvathy (2005) as the inversion of causation. As such, it is appropriate to describe causation relative to the previously listed effectuation principles. Whereas effectuators begin with their means, causal practitioners start with a specified outcome in mind and work backwards to ascertain how they will realize said outcome. Rather than consider how much they're willing to invest and potentially lose in a venture, causal practitioners focus on the potential upside to a venture, calculating the risk-adjusted expected return. In terms of partnerships, causal practitioners do not actively seek them,

relying on thorough and robust competitive analyses to provide them with information and guidance. For the causal practitioner, contingencies are planned for and to be worked around, allowing him or her to stay firmly committed to the original plan. Underlying the causal practitioner's efforts is the notion that the future environment is formed exogenously to his or her efforts. As such, the better the causal practitioner can predict the future, the more controllable the future will be (Sarasvathy, 2008).

Note that effectuation theory presents itself as not superior to causation, but merely as an alternative to it. The approach best suited for a given situation is contextual. Under greater uncertainty, effectuation is posited to be more appropriate and effective. Conversely, causation is more applicable under conditions of less uncertainty (Sarasvathy, 2001 and Alvarez & Barney, 2007). Taking this thought to the next step, a firm founded using effectuation principles will eventually transition to a causal approach as it grows and becomes more established, operating with less uncertainty (Read & Sarasvathy, 2005). It should also be noted that the opposite phenomena is also possible. Read (n.d.) has shown that under conditions of high uncertainty, ventures that customarily utilize causal logic initially respond to market conditions with strong causal techniques, but then transition to effectual ones, after realizing that causal logic is not optimal.

Methods

This paper's descriptive research will provide educators with an initial glimpse into which logics future hospitality entrepreneurs currently envision employing: effectual or causal. Hospitality students will be surveyed in an effort to learn how they currently intend to approach new business concepts and projects. The authors of the paper chose to adapt two existing validated questionnaires to create one instrument that was applied to the sample population. The original validated scales were developed for different contexts, one for an R&D environment (Brettel, Mauer, Engelen, & Kupper, 2012) and the other an entrepreneurship context (Chandler, DeTienne, McKelvie, & Mumford, 2011). Employing five point Likert items anchored by "strongly disagree" and "strongly agree", the later questionnaire supplies a seven item operationalization of the causation process. The first questionnaire provides multi-item operationalization of effectual principles and uses a semantic differential scale, with an effectual response providing one anchor and a causal response acting as the other. This approach is employed so as to create a clear contrast and preference between the two logics, causation and effectuation. A six point Likert scale is used to force the respondent to indicate a degree of preference for an effectual or causal approach (Bradley, et al. as cited in Brettel, Mauer, Engelen, & Kupper, 2012). Note that the creators of this scale elected to use test four on the five effectual principles, omitting the Pilot-of-the-Plane Principle. No rationale for doing so was provided.

The choice of a group administered questionnaire, as a qualitative method of data gathering, was motivated by several reasons: easy and cheap distribution and creation, possibility of multiple types of questions, quick turnaround and option of creating special design (Trochim, 2006). The questionnaire was administered to hospitality students studying at RIT Croatia in Dubrovnik, Croatia.

The questionnaire was pilot tested by a number of RIT Croatia full-time employees before it was released to the sample population.

The theoretical population for this study includes all hospitality students at RIT Croatia. Since not all students have the understanding and knowledge needed to answer the majority of the items, the authors of the paper focused on sophomore (second year), junior (third year), and senior (fourth year) students; these hospitality students having taken a number of hospitality business related courses such as accounting, marketing, service management, and principles of tourism operations. Of the hospitality program's relevant student population, 68.8% participated in the study, with the respondents evenly spread among the three participating generations. Note that approximately 94% of the surveyed students are from the Balkans, and the remaining students are primarily from North America.

As the existing scales were developed to analyze past actions in a R&D and entrepreneurship context, they are not exactly relevant to a student population that has not yet been engaged in either. As such, minor modifications were made to the scales. For instance, both the causation and effectuation operationalization wording was changed to reflect the future case (how will students act in the future) as opposed to the original scales' past tense (that captured respondents' recollections of their past actions). Additionally, in the effectuation operationalization, the phrase "R&D project" is replaced with "business concept". The complete set of questions can be found in the Appendix.

Results

Analysis of the results reveals that respondents predominately tend toward a causal approach. Note that responses were coded so that a higher numeric response corresponds to a causal approach, and, conversely, lower responses indicate an effectual approach. For the causation operationalization (which utilized a five-point Likert scale), the mean and standard deviation for the sample are 4.46 and 1.01 respectively. Pertaining to the effectual principles (responses coded from one to six), the sample provided mean values indicating a preference for a causal approach (mean values greater than 3.5) in three of the four principles, with the Lemonade principle being the only exception.

Specific mean and standard deviation values, respectively, for the Bird-in-Hand, Affordable Loss, Crazy Quilt, and Lemonade principles are as follows: 3.76 and 0.87; 4.14 and 0.97; 4.28 and 0.98; and 2.60 and 0.84. Analyses were run to determine if significant differences in responses along gender or generation dimensions exist and none were found.

Correlation among the principles was not examined as effectuation is a formative construct and, as such, correlation among the lower-order measures is not required (MacKenzie as cited in Chandler, DeTienne, McKelvie, & Mumford, 2011).

Discussion

The results from the causation operationalization reveal quite convincingly that students have been effectively instructed in the traditional business approach, the causal approach. However, it is interesting to note that, when given a choice between causation and effectuation, students' preferences for the causal approach diminish. Again, the operationalization of three of the effectual principles suggest leanings toward causation, with mean values of 3.76, 4.14, and 4.28 (on a scale from one to six), but not as convincingly as in the causation only operationalization (with a mean of 4.46 on a one to five scale). And students show support for an effectual approach regarding the Lemonade Principle, with a mean value of 2.60.

A question arises, then, as to why did students' inclinations for a causal approach decrease when they were given a choice between causation and effectuation. This paper identifies at least two explanations: effectual principles do not need to be taught as they are to some extent innate to individual's choices and actions, or the environment in which students live and operate is uncertain, prompting them to less fully embrace a causal approach, an approach predicated on the ability to predict the future. This paper will set aside a discussion on what motivates and directs individuals' actions on a very base and fundamental level, but instead will focus on the second explanation.

Croatia, a relatively young country formed just over 20 years ago (previously a republic of Yugoslavia) and recent member of the European Union, is a transition country, a country that has elected to switch from its previously central-planned economy to a market-based economy (EBRD, 1998). As defined by the World Economic Forum's (2013b) Global Competitiveness Report, Croatia's stage of economic development is currently between the Efficiency-driven and Innovation-driven categories, the second and third categories of the WEF's three level categorization of economic development, placing it behind developed countries such as Germany and the United States but ahead of developing countries such as Egypt and Bosnia and Herzegovina. Additionally, Croatia ranks 89th out of 189 countries in the World Bank's (2013) Doing Business Report and 78th out of 177 ranked countries in the Heritage Foundation and Dow Jones & Company's (2013) Economic Freedom Index.

In sum, Croatia's business environment is not as stable as those found in many of the developed countries in which traditional business approaches are taught. Perhaps in response to this, students are not strongly disposed to prefer causation over effectuation. Note that Estrin et al. (2006) suggest that transition country entrepreneurs, because of the unique business environment in which they operate, cannot automatically be assumed to be the same as developed or Western country entrepreneurs, potentially explaining students' muted support for causation over effectuation. Further supporting the notion that Croatia's relatively uncertain environment causes lukewarm student support for causation, McMillan and Woodruff (2002) hint that transition economy entrepreneurs act effectually, noting that, in response to high levels of uncertainty, these entrepreneurs produce partial control over their environment by creating substitutes for weak institutions. Finally, students themselves state that their native environment (the Balkans) is unique and what they perceive to be 'Western-style' (traditional) business approaches cannot be simply cut-and-paste from western, developed countries and applied in their environment. A common retort from students is, "Yes, that is an interesting approach, but it will not work here."

6) My business concept will be primarily built or based on:
my given means/resources (what I own and know; who I know) given targets

7) My:
given means/resources (what I own and know; who I know) will significantly impact the framework of my business concepts or intended outcomes will significantly impact the framework of my business

Affordable Loss operationalization (effectual response on the left and causal on the right)

8) Consideration about potential:
losses will be decisive for the selection of my business concept gains or returns will be decisive for the selection of my business concept

9) My business' budgets will be approved on the basis of:
considerations about how much they would potentially lose calculations of their expected return (e.g., ROI)

10) The selection of the business I pursue will mostly be based on:
a minimization of risks and costs analyses of future gains or returns

11) I will mainly consider the potential:
risk of my selected business odds or gains of my selected business

12) Decisions on capital expenditures (large purchases for my business) will primarily be based on potential:
risks of losses gains or returns

Crazy Quilt operationalization (effectual response on the left and causal on the right)

13) I will try to:
reduce risks to my business through partnerships and agreements identify risks to my business through market and competitor analyses

14) My partners/stakeholders and I will make decisions based on:
our competencies systematic market analyses

15) My risk reduction approach will be primarily one of:
approaching and working with potential partners and customers early identification of risks through market analyses in order to be able to implement my plan or approach

16) In order to reduce risks,:
I will start partnerships and receive pre-commitments (e.g., get orders before the product has been built) I will focus on market analyses and forecasts

Lemonade operationalization (effectual response on the left and causal on the right)

- 17) I will:
always try to integrate surprising findings during the building of my business – even though the changes are not necessarily in line with the original plan
only integrate surprising findings when the original plan is at risk
- 18) My business development will be:
flexible enough to be adjusted to unforeseen events and new findings
focused on reaching the business' target and plan without any delay
- 19) New findings and unforeseen events:
will influence the business concept
will not influence the business concept
- 20) The business concept will be developed:
in series of small steps during the formation of the business
essentially at the beginning of the planning process
- 21) In terms of opening my business,:
I will be flexible, despite potential delays, and take advantage of opportunities as they arise
I will take care to reach my initially defined start/open date without delays
- 22) In terms of the business concept, I:
will allow it to evolve as opportunities emerge – even though the opportunities are not in line with the original concept
will always pay attention to reach the initial concept; to stick to the original concept
- 23) Potential setbacks or external threats will be:
used as advantageously as possible
hoped to be avoided by conducting upfront market analyses

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